ANNUAL REPORT for the year ended December 31st, 1973

THE ALGOMA STEEL CORPORATION, LIMITED

1973

THE ALGOMA STEEL CORPORATION, LIMITED

STATISTICAL SUPPLEMENT TO 1973 ANNUAL REPORT

The new No. 2 basic oxygen steel plant in the foreground increases steelmaking capacity to more than 4 million tons annually.

significant statistics 1964-1973

COMPOSITION OF CONSOLIDATED SALES

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
	%	%	%	%	%	%	%	%	%	%
Steel products	93	93	92	92	88	91	90	91	89	88
Pig iron	4	4	4	3	6	5	6	6	8	8
Sinter					1	1	1	1	1	1
Coke, coal chemicals and sundry	3	3	4	5	5	3	3	2	2	3
	100	100	100	100	100	100	100	100	100	100

The composition of consolidated sales has been fairly constant during the past four years resulting from a steady growth in the sales of all product lines.

STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

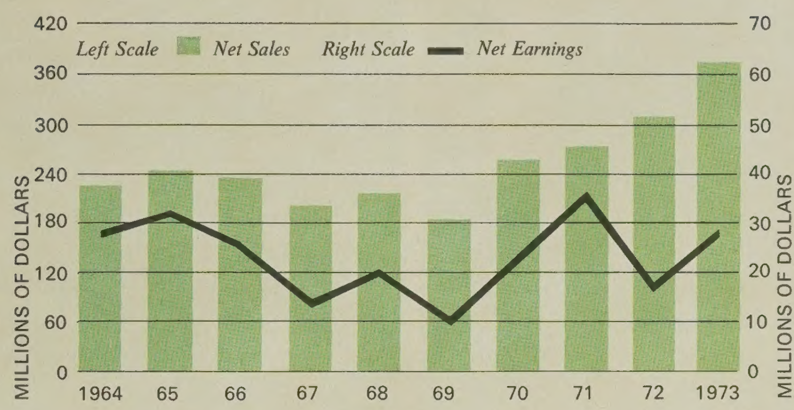
	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
	%	%	%	%	%	%	%	%	%	%
Plate and sheet products	57	56	50	47	48	46	45	44	43	38
Structurals, including wide flange beams	21	23	23	24	24	21	21	22	19	21
Rails and fastenings	8	6	9	7	8	5	7	7	5	7
Bars and grinding media	5	5	5	5	5	6	6	5	5	5
Tube rounds, seamless tubes and skelp	8	10	9	12	11	15	11	13	18	22
Semi-finished	1		4	5	4	7	10	9	10	7
	100	100	100	100	100	100	100	100	100	100

Plate and sheet products continue to represent a higher proportion of total steel shipments.

Trends and data shown were influenced to a large extent in 1971 by a $21.5 million extraordinary addition to earnings.

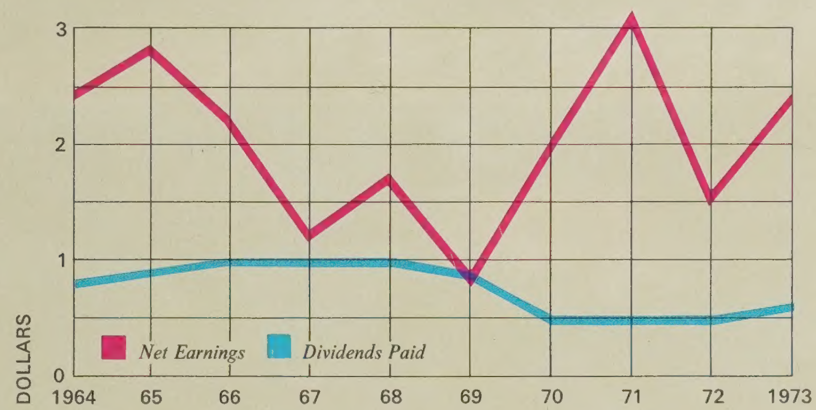
NET SALES AND NET EARNINGS

Sales increased 21 per cent and earnings 55 per cent resulting from higher shipments and sales returns and economies realized from new facilities.



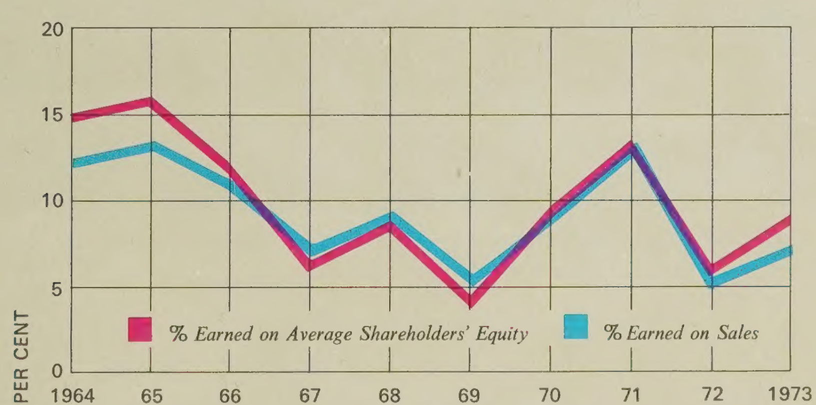
NET EARNINGS AND DIVIDENDS PER SHARE

A dividend extra of 12½ cents declared in the last quarter boosted dividends in 1973 to 62½ cents per share which represented 25 per cent of net earnings.



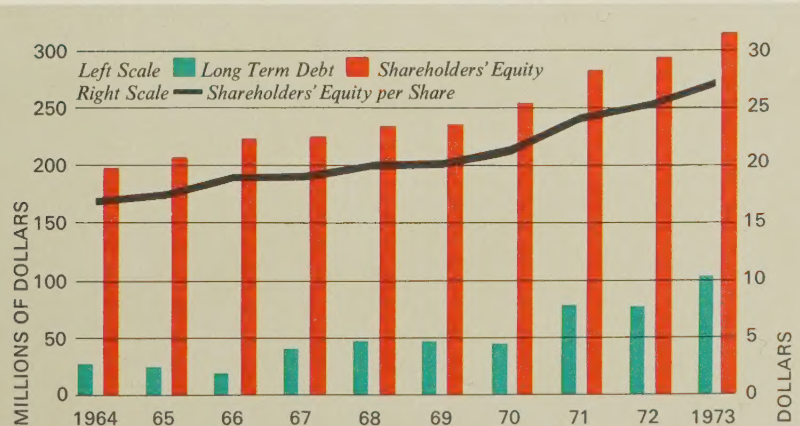
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

Earnings on equity and on sales increased to 9.3 per cent and 7.2 per cent respectively.



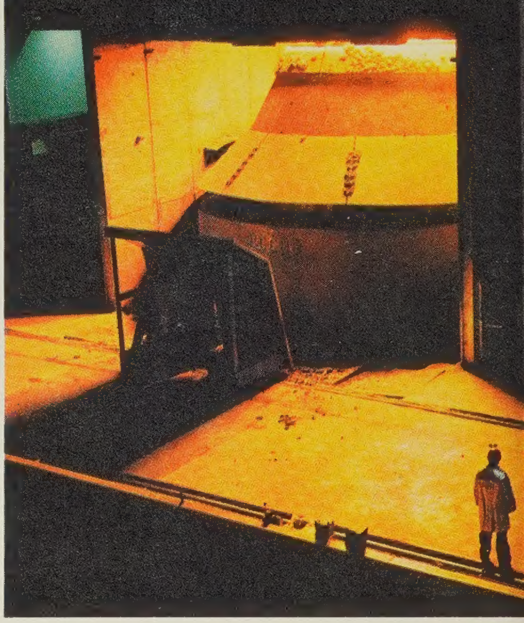
LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity increased 7 per cent to $27.32 per share. Long term debt amounted to 25 per cent of invested capital at year-end.



1. Ninety tons of prepared scrap are dumped into one of the 250-ton capacity basic oxygen steelmaking furnaces.

2. Molten iron (commonly referred to as hot metal) is added and the furnace is tilted back to its upright position.



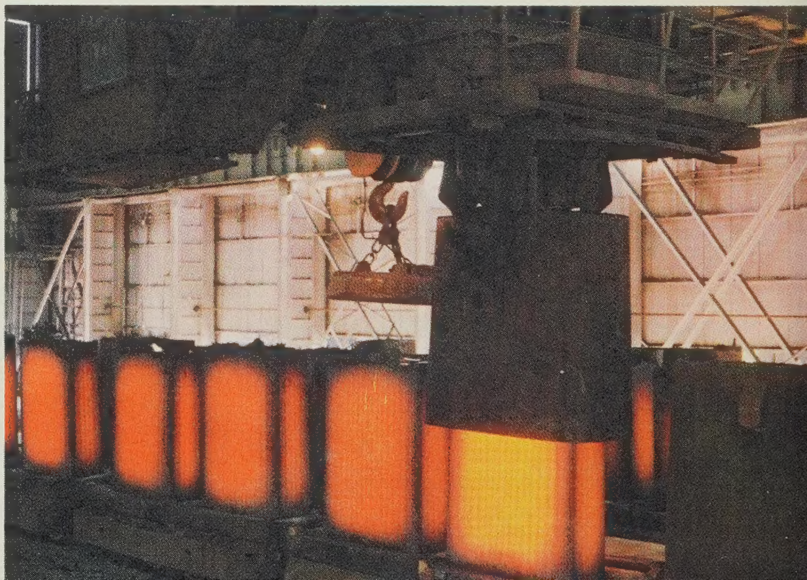
3. A water cooled lance is lowered into the furnace and oxygen is blown into the mixture to refine the hot metal and scrap into liquid steel.

4. Computerized recording instruments keep the furnace operator completely informed throughout the refining process.

5. When the steel meets the desired specification, the liquid steel is poured into a ladle.

6. The ladle is transferred by crane and the steel is poured into ingot moulds.

7. After the steel has solidified and the moulds have been removed, the steel ingots are then ready for further processing into finished steel products.



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Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.

HIGHLIGHTS OF 1973

(*with comparative figures for 1972*)

		1973	1972 RESTATED*	PER CENT CHANGE
		(dollars and tons in thousands except per share data)		
Net sales	$	376,241	310,045	+21
Earnings before equity in earnings of associated company and extraordinary credit—total	$	23,216	12,500	+86
—per share	$	2.00	1.08	
Earnings before extraordinary credit—total	$	28,556	15,833	+80
—per share	$	2.45	1.37	
Net earnings—total	$	28,556	18,441	+55
—per share	$	2.45	1.59	
—per cent of income	%	7.6	5.9	
—per cent of average shareholders' equity	%	9.3	6.4	
Cost of products sold as per cent of net sales	%	80.7	84.7	
Dividends paid—total	$	7,252	5,798	+25
—per share	$	.625	.50	
Capital and mine development expenditures excluding expenditures on leased equipment	$	67,486	52,005	
Depreciation and amortization	$	23,477	20,620	
Long term debt at year end	$	104,124	76,800	
Production—iron	N.T.	2,619	2,288	+14
—raw steel	N.T.	2,650	2,426	+ 9
Shipments—steel products	N.T.	1,920	1,740	+10
Approximate number of shareholders at year end	No.	14,958	16,191	

*Refer Note 2 to Financial Statements on page 14

The Annual and General Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 18, 1974, at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting, an information circular and a proxy are enclosed with this Report.

PRESIDENT'S LETTER

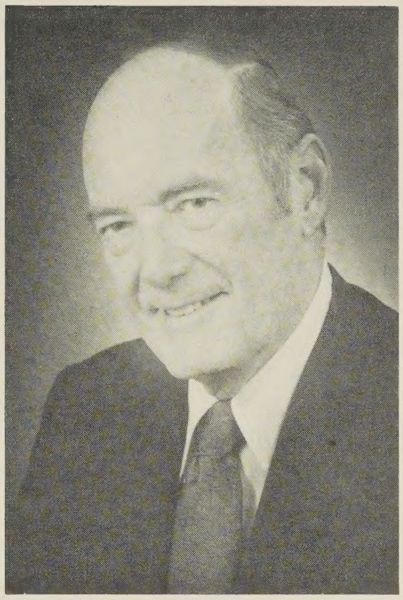
TO THE SHAREHOLDERS:

Activity was high in almost all steel-using sectors of the Canadian economy in 1973 and the market for steel products was exceptionally strong as it was throughout the world. Apparent consumption of steel products in Canada rose 9.5 per cent to 11.5 million tons, exports declined 21 per cent to 1.0 million tons and imports are expected to have been the same as last year at about 2.5 million tons. Raw steel production by Canadian mills increased 12.8 per cent to 14.6 million tons.

Algoma's improved results represented increasing realization of the returns expected on substantial capital expenditures in recent years. Start-up of the new No. 2 basic oxygen steelmaking plant in the second quarter was another major step forward in expansion plans and operation of this facility yielded significant economies.

The new No. 7 blast furnace is expected to be completed and brought into operation by the end of 1974 and construction has started on a new coke oven battery to replace a 32-year-old battery which is deteriorating. Work is also under way on the new continuous slab casting plant, relocation of the 106″ strip mill, and development of the MacLeod Mine at Wawa for deeper underground mining.

It is planned to modify and expand wide flange beam and structural rolling and finishing equipment to ensure increasing participation in the rapidly growing market for structural sections.



Chairman and President
David S. Holbrook

The senior management appointments reported under "Changes in Board and Senior Management" were made to strengthen and realign the organization so it will be able to deal effectively with problems inherent in expanding operations.

During 1973 there were four meetings of the Board of Directors in Toronto, four in Montreal and two in Sault Ste. Marie.

The improved results would not have been possible without the efforts of employees and the continued support of customers and shareholders which are acknowledged with appreciation.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 6, 1974.

REVIEW OF 1973 OPERATIONS

Financial

Consolidated sales at $376 million and net earnings at $28.6 million were respectively 21 per cent and 55 per cent higher than in 1972. Net earnings were $2.45 per share and cash flow from earnings $4.97 per share.

Net earnings were the highest for any year since 1965 with the exception of 1971 when they included a large capital gain on the sale of an investment. This achievement is attributable mainly to sustained high production levels, improved returns on sales and benefits realized from the No. 2 basic oxygen steelmaking plant.

There were substantial increases in the cost of raw materials, especially coal, and in the costs of other forms of energy, supplies and labour.

Interest expense rose $2 million reflecting much higher interest rates and increased borrowing to finance capital and mine development expenditures. Arrangements were made to sell short term notes backed by bank lines of credit in order to take advantage of lower interest rates available at times in the commercial money market and to have more flexibility in financing.

Start-up of the No. 2 basic oxygen steelmaking plant was largely responsible for the $3 million increase in depreciation expense and costs of plant and equipment and mine development were written off at rates expected to amortize these costs over either useful lives or recoverable reserves.

It is likely that there will be a determination by the Department of National Revenue in 1974 on the long-outstanding question of whether income from the Ruth and Lucy Mine will be exempt from income tax. This income was included in earnings from 1968 to 1970 on a taxable basis.

Quarterly dividends were 12½ cents per share and an extra of 12½ cents was paid in the fourth quarter to recognize improved earnings and cash flow, making total dividend payments $7.3 million, equal to 62½ cents per share.

Working capital increased $9 million to $63 million largely as a result of $20 million of borrowings under a bank credit arrangement being convertible into long term

loans. The ratio of current assets to current liabilities at the end of the year was 1.9:1.

The portion of expenditures on No. 7 blast furnace and the continuous slab casting plant which qualified for Federal regional economic expansion incentive grants was $2.5 million and this amount was shown on the balance sheet as a non-current account receivable.

Agreements were entered into for leasing approximately $13 million of machinery and equipment to be acquired and installed at the Steelworks with the leases to be for terms of up to 18 years and to contain options exercisable by the Corporation to purchase the assets three years prior to the expiry dates.

Under the stock option plan, 39,750 shares of treasury stock were purchased by employees which increased the total number of shares issued and outstanding at December 31, 1973 to 11,635,128.

A Statistical Supplement is enclosed featuring the new No. 2 basic oxygen steel plant in pictures on the cover and containing tables and charts of significant data.

Sales

Shipments of steel products rose 10 per cent to almost two million tons. There were no ingots sold and inventories of steel declined as a result of finishing and shipping as much as possible in attempts to satisfy customers' requirements. Shipments of steel products were limited by raw steel production which in turn was restricted by the tonnage of hot metal which could be produced. Pig iron shipments were almost entirely from the Canadian Furnace Division and increased about 50 per cent reflecting higher operations in the foundry industry and a general shortage of scrap.

The backlog of orders for steel products which was already high at the start of the year continued to increase and acceptance of orders had to be carefully aligned with production capabilities. At the end of the year the order backlog was still high and there was a general shortage of steel in Canada.

Customer reaction was favourable to high-strength, formable flat rolled steel ("Algoform") and higher-strength seamless tubes, and development work is continuing on lighter-weight, higher-strength cold rolled strip and sheet which will be of real benefit to customers in the automotive industry.

There were clear indications that steps taken in recent years have resulted in improvement in both the quality of products and service to customers.

The prices of most of Algoma's products were increased during the year but Canadian made steel remains inexpensive by world standards and this makes the domestic market less attractive to offshore producers.

Operations

Production of Algoma Sinter, coke, iron and raw steel increased and production of coal declined, as shown below:

	PRODUCTION		
	1973	1972	CHANGE
	(thousands of tons)		(per cent)
Algoma Sinter	2,031	1,758	+16
Coal	2,413	2,490	− 3
Coke	1,429	1,413	+ 1
Iron	2,619	2,288	+14
Raw steel	2,650	2,426	+ 9

Following successful start-up of No. 2 basic oxygen steelmaking plant, production of steel in the old open hearth furnaces was discontinued and all steel has been produced by the basic oxygen steelmaking process since September, 1973. This new plant increased steelmaking capacity which will be more fully utilized when the new blast furnace is completed by the end of this year. In the meantime, productivity has increased, environmental conditions are much better, and internally generated

scrap iron is being melted in an open hearth furnace to supplement the supply of hot metal for steelmaking.

Other major new facilities brought into operation which contributed to improved operations included coal storage and handling equipment and a second plant to produce burnt lime for steelmaking.

At the Steelworks, all four blast furnaces operated at high levels and use of screened and sized sinter from the Algoma Ore Division throughout the year increased productivity. Crude tar from cokemaking operations which was formerly used as fuel in the open hearth furnaces is being injected into two blast furnaces as a substitute for natural gas and the air blown into one furnace is being enriched by injecting oxygen to increase production of hot metal.

The increased tonnage of steel available made it possible to use continuously cast blooms and beam blanks to a greater extent in the production of rails, seamless tubes and structural sections. This improved the quality of these products.

New improved equipment for testing and inspecting seamless tubes to ensure maintenance of high quality standards and automatic equipment for changing plugs used in sizing tubes were installed and the latter not only improved productivity but made the operation much safer.

By-product fuels generated in the production of coke have been substituted in operations wherever possible for fuel oil and natural gas and waste heat recovery equipment has been included in new facility installations to reduce the consumption of purchased energy.

Production of iron at the Canadian Furnace Division and of sinter at the Algoma Ore Division were at high levels and all the sinter was used in the Corporation's blast furnaces.

Production of coal at Cannelton Industries declined as a result of difficult mining conditions at the low volatile mines which are nearing exhaustion. The cost of producing coal increased substantially at Cannelton and generally in the coal mining industry in the United States largely due to changes in government legislation which applied to this industry.

Increased tonnages of low volatile coal and iron ore required for higher steel production will be supplied by the new Maple Meadow Mine and the Tilden Mine joint venture. Property in the Geraldton area north of Lake Superior, estimated to contain sufficient iron ore to produce approximately 100 million tons of iron ore pellets, was leased and agreement was reached to purchase approximately 400,000 tons of high volatile coal per annum for ten years. Several additional coal and iron ore properties are being investigated with a view to further supplementing reserves of these key raw materials.

Environment

From 1964 to 1973 almost $19 million was spent to improve air and water quality and further installations involving substantial additional cost are under way.

Control equipment on the coke oven batteries and the new No. 7 blast furnace at the Steelworks, water mixing facilities at Wawa, and closed circuit systems at the new by-product plant at the Steelworks and at the coal preparation plant at the Kanawha Mines in the United States will purify air and water discharged from these operations.

A second Dorr thickener and a filter which concentrate solids from the blast furnace and steelmaking gas cleaning facilities prevent the discharge of iron-bearing materials into the St. Mary's River and equipment in the second plant to produce burnt lime collects lime dust.

The No. 2 basic oxygen steelmaking plant incorporates the latest developments in pollution control technology, including a cooling tower to control the temperature of discharge water, and production of all steel by this

method substantially reduces undesirable emissions to the atmosphere.

Research is under way preparatory to construction of a new high stack at the sinter plant at Wawa to control sulphur dioxide emissions.

Improvements, Additions and Alterations

Capital and mine development expenditures which totalled $67 million, excluding expenditures on leased equipment, reflect the substantial progress made on new facilities required to expand steelmaking capacity and escalation in construction costs.

The following major projects were completed at the Steelworks:

New coal storage and handling facilities;

Renewal of the highline at No. 4 blast furnace and replacement of raw material storage bins;

Equipment for the injection of tar, oxygen and oil into the blast furnaces;

Three new 240-ton ladle cars for transporting hot metal from the blast furnaces to No. 2 basic oxygen steelmaking plant;

New hot metal scale and alterations to railway track systems;

Rotary kiln plant to produce burnt lime for steelmaking;

No. 2 basic oxygen steelmaking plant;

New ingot stocking and handling facilities and improvements to ingot stripping equipment.

Projects under way or to be started at the Steelworks in 1974 include:

New coke oven battery (No. 9) and auxiliary equipment to replace a 32-year-old battery and add cokemaking capacity;

New large blast furnace (No. 7) and a new boiler and a turbo blower;

New facilities for handling blast furnace raw materials;

New two-strand continuous casting plant to produce slabs for rolling into plates or coils for flat rolled product;

Six additional soaking pits and two new soaking pit cranes to increase capacity to heat and roll ingots;

New 600-ton ingot stripper crane and a mould yard to handle increased ingot production;

Relocation of the 106″ strip mill to create a continuous in-line, computer-controlled combination plate and hot strip mill which will more than double production capacity and improve product quality;

Second furnace to heat slabs for the 166″ plate mill and the relocated 106″ strip mill;

Forty-ton crane to transfer heavier plates;

Expansion and modifications of wide flange beam and structural rolling and finishing equipment to increase production of these sections;

New cleaning equipment to improve the surface of cold rolled strip.

At the Algoma Ore Division, a second coke crusher was installed, additional trackless mining units were acquired and development work was started for deeper mining of the MacLeod Mine which is expected to provide ore for the production of two million tons of sinter per annum until the year 2000.

At Cannelton Industries, additional mining equipment was acquired and development work and construction continued at the Maple Meadow low volatile coal mine. Production from this Mine is scheduled to start in April, 1974 and to increase to an annual rate of 1.25 million tons by late 1976.

Development work and construction continued at the Tilden Mine joint venture in Michigan which is expected to commence production of iron ore pellets in the fourth quarter of 1974.

Employee, Community and Public Relations

Although generally satisfactory company-employee relations prevailed at the Canadian divisions, there were several illegal strikes and a considerable amount of absenteeism at the mines of Cannelton Industries. Labour throughout the coal industry in the United States was restless partly due to reorganization within the union.

Phasing out of the old open hearth furnaces and coal handling and storage facilities at the Steelworks affected the jobs of over 300 employees. Provisions in the Supplementary Unemployment Benefit Plan were implemented to provide temporary maintenance of earnings for employees relocated in occupations having lower job classifications and other employees elected to retire before normal retirement dates. Local unions cooperated fully in resolving problems in this respect and new seniority arrangements were agreed on to minimize the impact of the changes.

Based on recommendations by a company-union committee, an improved in-plant food service is being instituted at the Steelworks and is expected to be operational in the first quarter of 1974.

Programs to further improve company-employee communications were expanded at the Steelworks with good results and an extensive and successful recreation program was sponsored covering a wide range of activities.

The number of submissions under the Employee Suggestion Plan at the Steelworks increased about 50 per cent and many were implemented which resulted in cost reductions.

At times it was difficult to attract enough suitable job applicants at the Steelworks and a comprehensive program was instituted to train skilled employees such as motor inspectors and millwrights. Recruiting of college graduates continued and several undergraduates participated in a cooperative program involving alternate periods of employment and study. This gives students varied employment experience and enables the Corporation to make a better appraisal of their potential from performance on the job. Recruiting of students and graduates from technical institutions will be stepped up in 1974 to meet increasing requirements for employees with technical skills.

At the Algoma Ore Division, special emphasis was placed on training employees and on company-employee communications. The former was directed largely to improving the skills of supervisory personnel and developing apprentices who will become tradesmen.

A training program is being instituted at Cannelton Industries which will involve management and supervisory personnel and representatives of the United Mine Workers union.

Worthy fund-raising projects were again supported by the Corporation and many employees participated in the activities of community service and betterment organizations.

A three-year agreement was signed in 1973 with the bargaining unit representing employees of the Tube Division. The agreement with the union representing employees of the Marine Division expired in January, 1974 and a new agreement is being negotiated. At Cannelton Industries, the agreement with the United Mine Workers expires in November, 1974, and agreements with the union representing the largest proportion of employees at the Steelworks, Algoma Ore and Canadian Furnace Divisions expire in July, 1975.

Changes in Board and Senior Management

At the Annual Meeting on April 19, Dr. Franz-Josef Weisweiler of Mannesmann A.G. was elected to the Board of Directors replacing Dr. Ulrich Petersen and on October 4 the resignations of Dr. Egon Overbeck and Dr. Weisweiler from the Board of Directors were accepted.

Paul A. Nepveu, Vice President—Finance and Accounting, Canadian Pacific Limited and W. John Stenason, Vice

President—Administration, Canadian Pacific Limited were appointed to the Board of Directors on November 6 and December 5 respectively.

The following senior management appointments were made:

Edwin W. Austin . . .	Treasurer
Samuel H. Ellens . . .	Assistant Vice President—Administration
Douglas Joyce	Senior Vice President
Dr. John Macnamara . .	Executive Vice President
Brian W. H. Marsden	Vice President—Operations
Peter M. Nixon . . .	Assistant Vice President—Operations and Production Manager
R. Gordon Paterson . .	Vice President—Engineering
Robert N. Robertson .	Assistant Vice President—Sales
C. Carson Weeks . . .	Senior Vice President

C. E. McLurg, former Treasurer, retired during the year and Donald A. Machum, former Vice President, accepted a position with another company. The contributions of these individuals to the welfare of the Corporation during their many years of service is appreciated.

Outlook

It is generally predicted that there will be some slowing down in economic growth in Canada in 1974 but it is not expected to be of such proportions that it will seriously reduce the demand for steel products.

Algoma's raw steel production capacity will be limited to an annual rate of 2.8 million tons to the end of 1974 when it will increase to 3.5 million tons per annum. Upon completion of the new coke oven battery in 1975, steelmaking capacity will rise to in excess of 4 million tons per annum. Relocation of the 106″ strip mill will cause some disruption of rolling operations late in 1974 but this is expected to be minimized by shipping slabs to other steel mills for rolling into coils which will be returned to the Steelworks to be finished and shipped to customers. Unfortunately, inflation is continuing in Canada at an accelerated rate and unavoidable further cost increases will be experienced.

The Canadian steel industry has not experienced energy shortages and probably will not during 1974 but the costs of all forms of energy have risen and are forecast to rise still further. Algoma should not suffer from this competitively with other producers since these increases will be general.

The present tax "climate" in Canada is in marked contrast to the uncertain one of the 1960's and early 1970's and there can be little doubt that this has had a positive effect on growth of the Canadian economy. The Federal Government is commended for reducing the tax rate on manufacturing and processing profits and permitting the claiming of accelerated depreciation for tax purposes on new equipment which earns profits from these operations. The full effects of these incentives will not be apparent for several years in the steel industry because of the long time involved in planning and implementing major projects but the benefits will be cumulative and substantial. There will be lower taxes at a time when the need to conserve funds for investment in plant and equipment is greater than ever before and increased demand for steel for the plants of customers which will be expanding at a time when Algoma's production capacity is increasing. These incentives are of great importance, not only to Algoma but to the entire Canadian economy, and the Government is urged to continue them.

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

		1973	1972 Restated
INCOME	Net sales	$376,241,380	$310,045,081
	Other	358,096	312,898
		376,599,476	310,357,979
EXPENSES	Cost of products sold	303,894,598	262,987,105
	Administrative and selling (after deducting recovery of $1.5 million in 1972 on doubtful receivables)	9,926,928	7,945,860
	Interest and expense on long term debt	6,449,039	5,899,250
	Interest on short term loans	2,100,397	707,221
	Depreciation and amortization	23,476,883	20,619,796
		345,847,845	298,159,232
		30,751,631	12,198,747
INCOME TAXES (Note 3)	Current	17,000	109,315
	Deferred	7,519,000	(410,000)
		7,536,000	(300,685)
EARNINGS	Before equity in earnings of associated company and extraordinary credit	23,215,631	12,499,432
	Equity in earnings of associated company (Note 2)	5,340,000	3,334,000
	Before extraordinary credit	28,555,631	15,833,432
EXTRAORDINARY CREDIT	Equity in extraordinary gain of associated company (Note 2)	—	2,608,000
NET EARNINGS		$ 28,555,631	$ 18,441,432
EARNINGS PER SHARE	Before equity in earnings of associated company and extraordinary credit	$ 2.00	$ 1.08
	Before extraordinary credit	$ 2.45	$ 1.37
	Net earnings	$ 2.45	$ 1.59

CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
Balance at beginning of year as previously reported	$283,748,687	$271,720,944
Equity in earnings of associated company in fourth quarter of immediately preceding year (Note 2)	1,343,000	727,000
Balance at beginning of year as restated	285,091,687	272,447,944
Net earnings	28,555,631	18,441,432
	313,647,318	290,889,376
Dividends paid	7,252,236	5,797,689
Balance at end of year	$306,395,082	$285,091,687

See Notes to Consolidated Financial Statements on page 14.

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1973 AND 1972

		1973	1972 Restated
FUNDS WERE PROVIDED BY	Cash flow from earnings		
	Net earnings	$28,555,631	$ 18,441,432
	Transactions not resulting in an outlay or receipt of funds:		
	Depreciation and amortization	23,476,883	20,619,796
	Income tax applicable to future years	7,519,000	(410,000)
	Excess of charges to earnings to provide for replacements of furnace linings, etc. over expenditures therefor	1,851,555	(1,608,803)
	Equity in undistributed earnings of associated company	(3,616,191)	(4,390,572)
		57,786,878	32,651,853
	Sale of capital stock	603,803	—
	Net proceeds from long term loans	30,724,000	1,200,000
	Other—net	95,312	203,142
		89,209,993	34,054,995
FUNDS WERE APPLIED TO	Additions to fixed assets	64,985,926	52,005,086
	Additions to fixed assets recoverable from Federal Government grants	2,500,000	—
		67,485,926	52,005,086
	Long term investments	1,718,250	3,275,625
	Retirement of long term debt	3,400,000	2,200,000
	Reduction of accrued past service pension cost	437,590	834,141
	Dividends	7,252,236	5,797,689
		80,294,002	64,112,541
WORKING CAPITAL	Increase (decrease) during year	8,915,991	(30,057,546)
	At beginning of year	54,191,061	84,248,607
	At end of year	$ 63,107,052	$ 54,191,061

See Notes to Consolidated Financial Statements on page 14.

THE ALGOMA STEEL CORPORATION

CONSOLIDATED

AS AT DECEMB

ASSETS	1973	1972
		Restated
CURRENT		
Marketable investments, at cost which approximates market	$ 600,446	$ 98,860
Accounts receivable	51,374,557	51,589,670
Inventories (Note 4)	75,887,637	74,799,113
Prepaid expenses	3,411,621	2,993,809
Total current assets	131,274,261	129,481,452
NON-CURRENT ACCOUNT RECEIVABLE	2,500,000	—
LONG TERM INVESTMENTS		
Associated company (Note 2)	45,997,983	42,381,792
Other (Note 5a)	6,119,711	4,401,454
	52,117,694	46,783,246
FIXED ASSETS		
Property, plant and equipment, at cost (Note 5b)	642,698,317	583,587,796
Mine development, at cost	20,290,893	15,472,377
	662,989,210	599,060,173
Accumulated depreciation, depletion and amortization	296,842,000	272,512,260
	366,147,210	326,547,913
UNAMORTIZED DEBENTURE EXPENSE	640,470	677,598
	$552,679,635	$503,490,209

On Behalf of the Board

D. S. HOLBROOK Director

W. E. McLAUGHLIN Director

IMITED AND SUBSIDIARIES

BALANCE SHEET

1973 AND 1972

LIABILITIES	1973	1972
		Restated
CURRENT		
Cheques outstanding less cash on deposit	$ 9,370,808	$ 5,598,082
Notes payable—secured by assignment of accounts receivable and inventories —Bank loan	—	1,963,000
—Bankers acceptances	—	16,000,000
Accounts payable and accrued liabilities	54,867,434	48,472,105
Taxes payable	3,928,967	3,257,204
Total current liabilities	68,167,209	75,290,391
LONG TERM DEBT (Note 7)	104,124,000	76,800,000
ACCRUED PAST SERVICE PENSION COST (Note 8)	15,869,096	16,306,686
DEFERRED INCOME TAXES	46,597,000	39,078,000
SHAREHOLDERS' EQUITY (Note 9)		
Capital stock		
Shares of no par value		
Authorized —30,186,704		
Issued 1973 —11,635,128 (1972—11,595,378)	11,527,248	10,923,445
Retained earnings	306,395,082	285,091,687
	317,922,330	296,015,132
	$552,679,635	$503,490,209

See Notes to Consolidated Financial Statements on page 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The statements consolidate the accounts of all subsidiary companies. The assets, liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would not be any material effect on the financial statements of the Corporation.

2. CHANGE IN ACCOUNTING PRACTICE

Earnings for 1973 include the Corporation's equity in the audited earnings of Dominion Bridge Company, Limited for the twelve months ended December 31, 1973 whereas in 1972 the Corporation's earnings included its equity in the unaudited earnings of this associated company for the twelve months ended September 30, 1972. To give effect to this change in accounting practice, the Corporation's 1972 earnings have been restated to include its equity in the associated company's earnings for the twelve months ended December 31, 1972. This change resulted in an increase in earnings of $376,000 for 1973 (3 cents per share) and $616,000 for 1972 (5 cents per share) and in restatement of retained earnings at January 1, 1973 and 1972.

3. INCOME TAXES

Income tax provision for 1973 was reduced by $6.9 million because depletion allowances are claimed in determining income for tax purposes.

4. INVENTORIES

Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1973 and 1972 are:

	1973 (millions of dollars)	1972
Finished products	$ 9.5	$13.3
Work in process	21.1	21.5
Raw materials and supplies	45.3	40.0
	$75.9	$74.8

5. COMMITMENTS

(a) Other Long Term Investments include advances to Tilden Iron Ore Company (participant in a joint venture to produce iron ore pellets) by a subsidiary of the Corporation which has agreed to advance an estimated additional $5.3 million in 1974. The subsidiary is entitled to receive its share of pellets, estimated at 1.2 million tons per annum and is committed to pay its 47 percent share of Tilden's costs, including amounts sufficient to repay its share of that company's long term debt. The Corporation has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitment of the subsidiary. At December 31, 1973, 47 percent of Tilden's long term debt is $38.1 million.

(b) Commitments of approximately $85 million are outstanding at December 31, 1973 for expenditures on plant, equipment and mines.

6. LONG TERM LEASES

Rentals in 1973 under long term leases amounted to $2.6 million and future minimum annual rentals are approximately $3.0 million. These include rental under a lease of a seamless tube plant which expires in 1986 and contains annual options to purchase from 1977. Other long term leases are principally of raw material properties.

7. LONG TERM DEBT

	1973 (millions of dollars)	1972
Debentures (a)		
5¼% series A maturing 1978	$ 13.2	$ 14.5
7⅜% series C maturing 1987	26.9	28.1
8¾% series D maturing 1991	34.0	34.0
8½% notes maturing 1991 (b)	11.0	—
Bank loans under revolving bank credits (c)	16.7	1.2
Short term promissory notes (c)	3.0	—
Total amount outstanding	$104.8	$ 77.8
Less current portion	.7	1.0
	$104.1	$ 76.8

Sinking fund and other repayment requirements within the next five years (excluding bank loans and short term promissory notes) are $2.2 million in each of 1974 and 1975, $2.85 million in 1976, $3.35 million in 1977 and $12.35 million in 1978.

(a) At December 31, 1973, $1.5 million of debentures are redeemed and are to be applied to meet 1974 sinking fund requirements. The debentures are secured under a Trust Indenture creating a floating charge on certain assets of the Corporation.

(b) The total remaining amount available under the revolving bank credit for development of a coal mine is $16.5 million and is to be borrowed in increments of up to $5.5 million. As each increment is borrowed up to $11.0 million, it is to be converted into a term loan maturing in 1991 bearing interest at 8½%. The balance of loans under the revolving credit is to be converted into a term loan maturing in 1980 bearing interest varying with the lender's prevailing prime commercial rate. Borrowings under this credit are secured by a mortgage on the coal mine property.

(c) One of the bank lines of credit permits up to $25 million bank loans, bankers acceptances and short term promissory notes to be converted until December 31, 1976 into five year term loans. Accordingly, $19.7 million of bank loans and short term promissory notes are classified as long term debt. The bank loans are secured by assignment of accounts receivable and inventories.

8. PENSIONS

Estimated unfunded liability for pensions earned by past service is $59.4 million which includes an increase of $4.1 million resulting from pension plan revisions in 1973 and is comprised of the following:

	1973	1972
	(millions of dollars)	
Included in current liabilities	$ 5.3	$ 4.3
Included in non-current liabilities	15.9	16.3
Not included in liabilities	38.2	36.6
	$59.4	$57.2

Pension costs charged against earnings include those arising from current service, interest on the past service liability and annual payments in respect of $38.2 million not included in liabilities. It is planned that future payments will discharge this past service liability by 1989.

9. SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding, the Corporation must meet certain financial requirements before paying dividends or reducing share capital and these are exceeded by a substantial amount.

During 1973, options were exercised on 39,750 shares of the Corporation for $603,803 under the stock option plan. No options were granted in 1973 and there are unexercised options at December 31, 1973 on 34,000 shares terminating in 1974 and 22,000 in 1979 at $15.19 per share.

10. REMUNERATION

Total remuneration of directors and senior officers amounted to $836,234.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors of the associated company and its subsidiaries whose earnings have been included on the equity basis in these financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation and subsidiaries as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (see Note 2).

Sault Ste. Marie, Ontario
February 4, 1974.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

COMPARISON OF FINANCIAL AN

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

	Production												
Year	Coal net tons	Algoma Sinter gross tons	Iron net tons	Raw steel net tons	Shipments of steel products net tons	Income $	Cost of products sold $	Adminis-trative and selling $	Interest and expense on debt $	Depreciation and amortization $	Income taxes $	Equity in earnings of associated company $	Net earnings $
1973	2413	2031	2619	2650	1920	376.6	303.9	9.9	8.5	23.5	7.5	5.3	28.6
1972	2490	1758	2288	2426	1740	310.4	263.0	8.0	6.6	20.6	(.3)	5.9	18.4
1971	2202	1639	2136	2360	1681	273.2	230.2	6.0	6.3	18.9	.1	2.7	35.9(2)
1970	2701	1511	2440	2495	1745	258.8	214.7	5.9	4.0	18.3	(6.4)	3.0	25.3
1969	2301	1142	1705	1725	1243	185.3	160.6	5.6	3.1	17.5	(9.8)	2.2	10.5
1968	2253	1723	2189	2261	1549	219.1	175.0	5.1	3.0	18.6	(1.4)	1.6	20.4
1967	1841	1562	1957	2073	1451	202.5	159.2	5.6	1.5	17.6	4.5	1.7	14.8(3)
1966	1685	1805	2241	2347	1715	238.0	175.3	5.7	1.2	16.5	15.5	2.5	26.3
1965	1674	1822	2289	2486	1768	243.6	169.5	4.8	1.3	15.1	22.9	2.9	32.9
1964	1591	1781	2261	2301	1670	226.4	158.2	4.6	1.4	14.5	20.5	1.2	28.4
1963	1672	1618	2077	2092	1520	205.8	142.2	4.3	1.5	13.1	18.8		25.9

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

	Source							Application					
Year	Net earnings $	Depreciation and amortization $	Deferred income taxes $	Increase in equity of Assoc. Co. (7) $	Sale of invest-ments $	Long term debt $	Other —net (8) $	Fixed assets $	Investments reserved for expansion $	Reduction of debt $	Dividends paid $	Invest-ments $	Increase in working capital $
1973	28.6	23.5	7.5	(3.6)		30.7	2.1	67.5		3.4	7.3	1.7	8.9
1972	18.4	20.6	(.4)	(4.4)		1.2	(2.2)	52.0		2.2	5.8	3.3	(30.1)
1971	35.9	18.9		(1.6)	2.5	34.0	(2.9)	39.1		2.2	5.8	1.1	38.6
1970	25.3	18.3	(6.6)	(1.7)			(.4)	31.0		1.0	5.8		(2.9)
1969	10.5	17.5	(7.6)	(1.3)			9.8	40.4		.1	10.2		(21.8)
1968	20.4	18.6	(3.7)	(.6)		9.3	11.7	23.2	10.0	1.9	11.6		9.0
1967	14.8	17.6	5.3	(.6)		20.7	7.5	39.0	10.0		11.6		4.7
1966	26.3	16.5	6.5	(1.5)			13.6	33.5	10.0	4.8	11.6	1.5	
1965	32.9	15.1	9.1	(2.1)			.6	25.2	15.0	3.1	10.4		1.9
1964	28.4	14.5	11.6	(.8)			16.3	37.5		1.7	9.3	27.5	(6.0)
1963	25.9	13.1	5.7		16.1		9.4	31.5	15.0	1.8	8.7		13.2

(1) Figures restated from 1964 to reflect equity accounting for investment in associated company. Refer to Note 2 to Financial Statements.
(2) Includes an extraordinary credit of $21.5 million ($1.85 per share).
(3) After an extraordinary charge of $1.0 million.
(4) Statistics on shares adjusted for share subdivision in May 1966.

PERATING RESULTS 1973-1963[1]

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data (4))

Year	Dividends paid $	Net earnings retained in business $	Cash flow from earnings $	Per share: Net earnings $	Per share: Dividends paid $	Per share: Cash flow $	Cost of products sold as % of net sales (5) %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital (6) %
1973	7.3	21.3	57.8	2.45	.625	4.97	80.7	2.0	7.6	9.3	8.0
1972	5.8	12.6	32.7	1.59	.50	2.82	84.7	(.1)	5.9	6.4	5.9
1971	5.8	30.1	51.8	3.10(2)	.50	4.47(2)	84.6	.1	13.2	13.4	11.7
1970	5.8	19.5	36.6	2.18	.50	3.15	83.4	(2.5)	9.8	10.4	9.2
1969	10.2	.3	19.4	.90	.875	1.67	87.7	(5.3)	5.7	4.5	4.3
1968	11.6	8.8	35.9	1.76	1.00	3.09	80.6	(.7)	9.3	8.9	8.0
1967	11.6	3.2	35.1	1.27	1.00	3.03	79.3	2.2	7.3	6.6	6.1
1966	11.6	14.7	48.0	2.26	1.00	4.13	74.1	6.5	11.0	12.2	11.3
1965	10.4	22.5	55.6	2.84	.90	4.80	70.0	9.4	13.5	16.2	14.7
1964	9.3	19.1	55.0	2.45	.80	4.74	70.0	9.0	12.5	15.1	13.4
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8

BALANCE SHEET SUMMARY (millions of dollars excepting per share data (4))

Dec. 31	Working capital $	Non-current receivables $	Invest-ments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge or (credit) $	Long term debt $	Accrued past service pension cost $	Deferred income taxes $	Share-holders' equity $	Share-holders' equity per share $	Number of shares issued (000)	Number of share-holders
1973	63.1	2.5	52.1		366.2	.6	104.1	15.9	46.6	317.9	27.32	11635	14958
1972	54.2		46.8		326.5	.7	76.8	16.3	39.1	296.0	25.53	11595	16191
1971	84.3		39.1		293.7	.7	77.8	17.1	39.5	283.4	24.44	11595	17080
1970	45.7	.6	38.9		272.5		46.0	18.9	39.5	253.3	21.82	11608	17566
1969	48.6	.7	37.4		261.4		47.0	20.9	46.4	233.8	20.14	11608	16362
1968	70.4	.7	36.1	10.0	238.9	9.9	47.1	20.7	64.7	233.5	20.11	11608	14796
1967	61.4	1.6	35.4	10.0	235.7	6.5	39.7	17.8	68.4	224.7	19.36	11608	13936
1966	56.7	1.6	36.1	10.0	212.8	6.9	19.0	18.4	63.2	223.5	19.25	11606	13284
1965	56.7		33.2	15.0	196.0		23.9	11.8	56.7	208.5	17.98	11596	13912
1964	54.8		31.1		186.7		26.9		47.6	198.1	17.09	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	178.8	15.45	11574	7863

(5) Excludes expense of rearranging plant.
(6) Average of shareholders' equity plus long term debt less unamortized debenture expense at beginning and end of year.
(7) Excess of equity in earnings of associated company over dividends received.
(8) Includes investments reserved for expansion at end of each previous year.

DIRECTORS

*John B. Barber *Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*John D. Barrington *Mining Consultant and company director*	Toronto, Ontario
Keith Campbell *Vice President, Canadian Pacific Limited*	Montreal, Quebec
*Ross Dunn, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
Douglas Joyce *Senior Vice President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *Chairman and President, Dominion Bridge Company, Limited*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *Chairman, Canadian General Investments, Limited*	Toronto, Ontario
Paul A. Nepveu *Vice President—Finance and Accounting, Canadian Pacific Limited*	Montreal, Quebec
Charles I. Rathgeb *President, Comstock International Ltd.*	Toronto, Ontario
Leonard N. Savoie *President and Chief Executive Officer, Algoma Central Railway*	Sault Ste. Marie, Ontario
W. John Stenason *Vice President—Administration, Canadian Pacific Limited*	Montreal, Quebec
*Dr. G. Wagner *North American Representative, Mannesmann A.G.*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Victoria, British Columbia
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario

PRINCIPAL OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice Chairman and Senior Vice President
Douglas Joyce	Senior Vice President
C. Carson Weeks	Senior Vice President
Dr. John Macnamara	Executive Vice President
Ross H. Cutmore	Vice President - Finance
Brian W. H. Marsden	Vice President - Operations
R. Gordon Paterson	Vice President - Engineering
Samuel H. Ellens	Assistant Vice President - Administration
Peter M. Nixon	Assistant Vice President - Operations and Production Manager
Robert N. Robertson	Assistant Vice President - Sales
Joseph D. R. Potter	Secretary
Edwin W. Austin	Treasurer
William J. Reed	Comptroller

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Tube Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Marine Division, Sault Ste. Marie, Ontario
SUBSIDIARY COMPANY WORKS AND OPERATIONS	Cannelton Industries, Inc., Cannelton, West Virginia Cannelton Coal Division Kanawha Mines, Cannelton, West Virginia Pocahontas Mines, Superior, West Virginia Chippewa Tube Division, Dafter, Michigan Maple Meadow Mining Company Maple Meadow Mine, Fairdale, West Virginia Cannelton Iron Ore Company

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
SHARES LISTED	Montreal, Toronto and Vancouver stock exchanges
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES

Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

PRODUCTS

Algoma Sinter
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Beams and Columns
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Bevelled Edge Grader Blade Bars
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Skelp
Plate
- Sheared and Gas Cut
- Universal Mill
- Floor

Seamless Pipe and Tubes
- Oil Well Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings